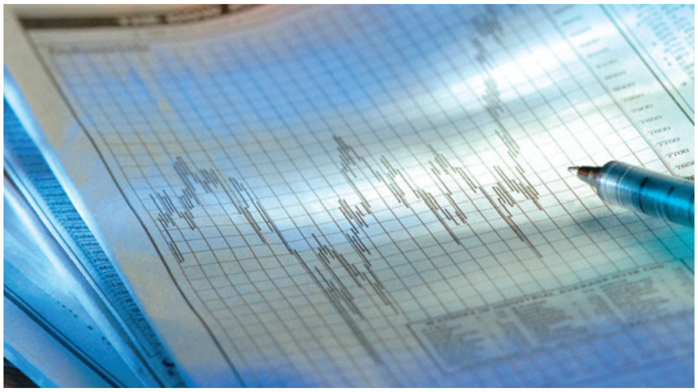
GFI Investment Counsel Ltd.

Preserving and growing family capital™

GoodQuarter

FALL 2012



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Dear Valued Client,

"If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring." – George Soros

"Boring" is often the way we describe our investment approach to prospective clients. It may even be the way one describes our newsletter. It's not our intention to be boring, but buying great businesses, collecting dividends, and watching a business appreciate isn't the stuff of movies. Combine a 2%-4% dividend with 5%-7% appreciation, and, before you know it, your return is nearing 10%. Additionally, buying great, proven businesses offers less chance for capital destruction. While we still have to worry about a business's prospects 10 or 20 years down the road, it's unlikely H.J. Heinz Company will suffer the same fate as Facebook, Inc. or Zipcar, Inc. While you're not likely to see us invest in the latest fad, you can continue to expect boring ... because boring works.

Our approach isn't for everyone. We believe our approach works best for confident investors who know there's no free lunch. Our investment approach won't always appear to be the best approach. Dot-coms will reincarnate themselves in another form. Resource stocks will once again be the talk of the town. But "slow and steady" will continue to be our mantra. *The Globe and Mail* published an interesting article highlighting this approach that we have included on page three of this edition of GoodQuarter.

Our approach to fixed-income investing includes purchasing creditworthy bonds, regardless of the size of the issuer or the rating given to the issue by credit agencies. We conduct our own analysis on the issuer. And we are selective when choosing securities for your portfolio, even when the temptation exists to purchase riskier bonds that may offer a higher yield. Bond yields have continued to fall and, until we find appropriate investments, some of you will notice higher-than-usual levels of cash. Both our equity and bond investments are run through a rigorous checklist that we discuss in our article on page two.

As always, if there is anything we can assist you with, please don't hesitate to contact us.

Warm regards,

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Vice President and
Co-Chief Investment Officer

What's happening at GFI

Effie Wolle's new business card reads Co-Chief Investment Officer and, while we don't focus on titles at GFI, Co-Chief Investment Officer more accurately reflects the collaborative approach we have adhered to for some time. That collaboration, more often than not, finds us dissecting each other's opinion in search of a better investment decision.

David Homenuk recently joined the GFI team. David brings a background in trading and operations from several financial industry firms, the most recent of which was Merrill Lynch. David will be a great addition to our client- and results-focused culture. Please welcome David aboard the next time you speak with him.

We also wanted to thank our summer student, Ram Bindra, for all his hard work over the past few months. Ram provided excellent investment research over the summer, and will have a very strong career in the investment industry should he pursue this line of work. We certainly hope to have Ram back in the future.

Checklist investing

We spend a lot of time analyzing our investment process to find new ways to improve the way we allocate your capital. One of the most basic tools we have adopted in our investment process is the use of checklists. Checklists are used as critical safety tools in aircraft cockpits, operating rooms, and other industries that require near-perfect safety programs. At GFI, we use a proprietary checklist to ensure we never miss any details when making an investment decision. When we do make a mistake, which of course does happen, we have an opportunity to add to our checklist and improve our processes. Perhaps most importantly, our checklists ensure we are learning from our mistakes.

So what items are on our investing checklist? Here are a few examples:

- ✓ Are we paying a reasonable amount for the business given a typical year's cash flow?
- ✓ Can we picture what the investment's industry will look like in 10 years?
- ✓ Is the company borrowing large amounts of money and increasing its bankruptcy risk?
- ✓ Are the company's clients recurring or is the nature of the business such that it will always have to sell one project at a time?
- ✓ Does the company have enough capital to execute on its strategy?
- ✓ Does the company have a product or service that is distinct enough to provide strong pricing power?
- ✓ Are there potential union issues that could arise from the company's workforce?
- ✓ What do the company's customers have to say about the company?

These are just a few of the questions we ask ourselves when making an investment decision. And in addition to these mostly qualitative factors, our process analyzes the true cash flow of a business through detailed analysis of the company's financial statements and management discussions.

Our checklist has been key to our success to date, and will continue to drive our success in the future.

THE GLOBE AND MAIL

PORTFOLIO STRATEGY

Why boring stocks win

Fri Aug 3 2012 John Reese

For decades, the investment world operated under two key assumptions – that risk is defined by volatility, and that taking on greater risk leads to greater reward. Buy stocks that are risky and, over the long run, the market will reward you with greater returns, the thinking went.

Recently, however, that thinking has been turned on its head. Last year, at least two academic studies found that low-beta stocks – that is, those that have lower volatility than their benchmarks – have outperformed more volatile high-beta stocks over the long run.

In Betting Against Beta, published in the Swiss Finance Institute Research Paper Series, Andrea Frazzini and Lasse Pedersen found that Warren Buffett's Berkshire Hathaway has beaten the market over the long haul by focusing on low-beta stocks, and using leverage – other people's money – when buying them.

Most investors can't use large amounts of leverage, however. Instead, they turn to volatile stocks in search of high return, Mr. Pederson and Ms. Frazzini said. In doing so, they bid up the prices of those stocks, which has led to high-beta assets underperforming among U.S. equities, 20 international equity markets, Treasury bonds, corporate bonds, and futures.

Another study, published in the Financial Analysts Journal, looked at the 1,000 largest stocks from 1968-2008, breaking them down into five quintiles based on their betas. Malcolm Baker, Brendan Bradley, and Jeffrey Wurgler found that investing a dollar in the quintile of stocks with the lowest betas would have produced a gain of $10.12, after inflation, by the end of the 41-year period. A dollar invested in the stocks with the highest betas? It would have left you with less than 10 cents!

The authors hypothesize that a number of behavioural factors, including overconfidence, tend to push investors into high-beta stocks, making them overvalued.

James O'Shaughnessy, one of the investors upon whom I base my Guru Strategy investing models, also revealed some interesting beta-related data last year. In an updated version of his What Works on Wall Street, he found that from 1968-2009, the top-performing sector in the U.S. market was the decidedly unsexy, low-volatility consumer staples sector.

These firms produce solid, steady earnings through the entire economic cycle because people buy staple items even in tough times. In addition, many consumer staples firms don't have to deal with the competition that dogs flashier companies. "There are probably not three guys in a garage out in Palo Alto trying to think up a new formula to beat Coke," Mr. O'Shaughnessy said. "There's all sorts of people out there trying to beat Google."

The common observation among all these researchers is that sexy companies and stocks more often than not lose out to solid, steady Eddies. For every Google or Microsoft, there are dozens of hyped-up stocks that end up floundering.

While most investors are loading up on those high-risk plays, you should consider focusing on less volatile stocks of companies with attractive valuations and solid balance sheets. Here are three that get approval from my models. Investing in low-beta plays like these could help you generate market-beating long-term returns – and get a good night's sleep during tough times.

COCA-COLA CO.

The Atlanta-based beverage giant has a beta of just 0.52 over the past five years. (A beta of 1.0 would mean it was as volatile as the S&P 500 benchmark; a figure below that level indicates lower volatility.)

Coke is a long-time holding of Mr. Buffett's Berkshire Hathaway, and not surprisingly it gets high marks from my Buffett-based strategy. The model likes its history of increasing earnings per share in a variety of climates, the fact that it has enough annual earnings ($8.7-billion U.S.) that it could, if need be, pay off all its debt ($16.4-billion) in less than two years, and its 30-per-cent average return on equity over the past 10 years.

PROCTER & GAMBLE CO.

Cincinnati-based Procter is a power in the consumer goods arena, with such famous brands as Pampers, Bounty, Swiffer, Gillette, Old Spice, and Ivory. Its size ($84-billion in annual sales) and those staple brands have made it much less volatile than the broader market, with a beta of just 0.45 over the past five years. My O'Shaughnessy-based value model likes its fundamentals, including its strong cash flow per share and solid 3.4 per cent dividend yield.

METRO INC.

This Montreal-based food and drugstore operator's shares have a beta of just 0.32, and win approval from two of my models.

My Peter Lynch-inspired strategy considers it a "stalwart" – the type of large, steady firm that tends to fare well in tough times – because of its large sales and steady growth in earnings per share. My O'Shaughnessy-based growth model likes Metro's decade-long history of increasing its annual earnings per share.

GFI Investment Counsel and GoodFunds

GFI Investment Counsel ("GFI") provides tailored investment portfolios to families, foundations, trusts and corporations. We work closely with our clients to customize investment accounts that coincide with our clients' unique requirements. GFI focuses on preserving and growing client capital through intense due diligence, focus, and discipline.

In January 2008, GFI launched the Good Opportunities Fund ("the Fund"), an alternative investment fund available to accredited investors. The Fund is the first in the "GoodFunds" series of investment products. The Fund focuses on a select group of investment opportunities that provide an attractive risk/reward dynamic regardless of asset class or market capitalization. The Fund is managed with a focus on understanding the businesses, their capital structure, and risks and opportunities.

The highest compliment you give us is the referral of family, friends, and business associates.

If you know anyone who would benefit from working with GFI Investment Counsel, please ask them to contact us at our office at 416.488.8825 or info@gfiic.com. Additional information can be found on our website at www.gfiic.com.

For more information about GFI Investment Counsel, the Good Opportunities Fund, or GoodFunds, please call **416.488.8825** or **email info@gfiic.com**.

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